



Arizona State Retirement System

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Special Notice

Update to members of the Defined Contribution System

Questions?

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This message is for members of the ASRS Defined Contribution System, (referred to below as the "System").

The System was the original retirement plan when the ASRS was created in 1953. All ASRS members who began participation in the ASRS after July 1, 1976 are in the Defined Benefit Plan, and not the System. Of the more than 525,000 ASRS members, less than 1,800 remain in the System.

As has been previously reported, the ASRS Board of Trustees at its November 21, 2008 meeting accepted annual actuarial valuations of the various plans administered by the ASRS for the fiscal year ending June 30, 2008.

The valuation for the Defined Contribution System was determined to be 102 percent, which was in the range that will keep benefits at current levels, but will not allow for any addition to the 13th check or to supplemental credit for System members this year.

The System is a defined contribution plan in which benefits are based on the total contributions of the employee and employer, plus interest and supplemental credits in a participant's account at the time of retirement. And, unlike the ASRS defined benefit plan, System benefits are not fully guaranteed and are subject to gains and losses in the investment world.

If losses occur, and the System fund falls below a 95-percent funded status, the Board is required to reduce benefits to System members to restore the fund. If the funded status exceeds 105 percent, the Board may provide for additions to the 13th check or supplemental credits. Because the funded status is 102 percent, benefits remain the same.

However, the actuarial valuation was done as of June 30, 2008. Since that time, and especially in the fourth quarter of 2008, the investment markets have declined substantially. Unless markets rebound dramatically, the valuation of the System for the period ending June 30, 2009 is expected to be at a funding level below the 95 percent threshold, which could mean the ASRS would be required to reduce System member benefits.

In preparation for that, the ASRS has asked the Arizona Attorney General's Office for a formal opinion regarding the options and duties of reducing benefits.

Specifically, the ASRS is requesting answers to the following:

1. Are there any circumstances in which the ASRS must or may reduce the benefits of System members and beneficiaries?
2. If benefits are reduced, is there a minimum amount that must be paid to System members and beneficiaries?
3. If benefits cannot be reduced below the comparable defined benefit plan retirement amount, would the benefit amount be measured prospectively from the date of reduction of System benefits?
4. If there are insufficient funds to pay legally required benefits to members entitled to a System benefit, what would be the lawful source of funds to pay remaining benefits?
5. If cuts are permissible and ultimately required, what is the lawful method for calculating the amount of each System member's benefit reduction?

The ASRS expects a reply, possibly as early as the end of February. When we receive the formal opinion, and determine next steps, we will pass along the information to System members as soon as possible.